



BANGKO SENTRAL NG PILIPINAS

**OFFICE OF THE DEPUTY GOVERNOR
SUPERVISION AND EXAMINATION SECTOR**

MEMORANDUM NO. M- 2015- 043

To : All Banks

Subject : Implementing Guidelines for the Consolidation Program for Rural Banks (CPRB)

The Bangko Sentral ng Pilipinas (BSP), the Philippine Deposit Insurance Corporation (PDIC), and the Land Bank of the Philippines (LBP) have approved the attached Implementing Guidelines for the CPRB which became effective on 25 August 2015 and shall be available until 25 August 2017.

The Implementing Guidelines set out the eligibility requirements for proponent banks, the procedures for application and the related documentary requirements, the program supports and regulatory incentives. For proponent banks that wish to avail of the Equity Investment Facility from the LBP under the Program, their eligibility shall be subject to the Guidelines on the LBP Equity Investment Facility (Annex A).

For guidance and immediate implementation.


NESTOR A. ESPENILLA, JR.
Deputy Governor

11 December 2015

Att.: A/S

CONSOLIDATION PROGRAM FOR RURAL BANKS IMPLEMENTING GUIDELINES

Following approval by the PDIC, BSP, LBP and CFIEP of their respective participations in the Consolidation Program for Rural Banks, these implementing program guidelines ("**Guidelines**") are hereby issued.¹

Section 1.0 Rationale of the Program

The CPRB was established in recognition of the need to further strengthen and enhance the viability of rural banks given their importance in providing essential financial services to the community, particularly in their specialized or niche markets, and in promoting financial inclusion and financial stability in the economy.

The Program seeks to encourage consolidations and mergers among rural banks to bring about a less fragmented banking system by enabling rural banks to: (i) improve their financial strength; (ii) enhance their viability; (iii) strengthen management and governance; (iv) generate synergies and economies of scale through common infrastructure, systems and resources; and (v) expand their market reach.

Section 2.0 Definition of Terms

For purposes of these Guidelines, the following acronyms, words and phrases shall mean as follows:

- 2.1 "Agencies" collectively refer to the PDIC, the BSP and the LBP as authors and advocates of the Program.
- 2.2 "CFIEP" refers to the Countryside Financial Institution Enhancement Program which shall provide funding support to the Program, consistent with its objectives of improving the long term viability of countryside financial institutions.
- 2.3 "Consolidation", involves the combination of at least five (5) rural banks (RBs), resulting in their dissolution and the creation of a new entity, subject to the provisions of existing applicable and relevant laws.
- 2.4 "Day" (or days) refers to business day or day other than a Saturday, Sunday or day on which commercial banks in Metro Manila are generally closed for business.

¹ Philippine Deposit Insurance Corporation (PDIC) Board Resolution No. 2015-05-063 dated 20 May 2015; Bangko Sentral ng Pilipinas (BSP) Monetary Board (MB) Resolution No. 995 dated 18 June 2015; Land Bank of the Philippines (LBP) Codified Approving Signing Authorities, as amended, per Secretary's Certificate dated 29 June 2015; and approval dated 28 July 2015 of the Countryside Financial Institutions Enhancement Program (CFIEP) Task Force of funding support for the Program.

- 2.5 "Financial Adviser" refers to the adviser engaged by the Proponent Banks from among the top five financial advisers based on the CFIEP Guidelines on the Funding Support for the Program, which shall provide financial, legal and property appraisal services to the Proponent Banks as set forth under Section 8.7 and the Terms of Reference for the Financial Adviser approved by the CFIEP.
- 2.6 "Financial Adviser's Final Report" includes but not limited to the report on: (i) the methodology (ii) the valuation and appraisal reports of assets, (iii) legal audit report on pending cases; (iv) the due diligence findings including report on the over-all financial condition of the Proponent Banks; (v) the proposed ownership and capital structure and proposed consolidation or merger plan of the Surviving Bank; (vi) the organizational structure and integration plan, business plan including financial projections for the Surviving Bank; and (vii) all reports and documents required to be delivered by the Financial Adviser under the Guidelines, Terms of Reference in the Engagement of the Financial Adviser and the Engagement Contract.
- 2.7 "Merger" involves the combination of at least five (5) rural banks, one of which shall be the surviving entity, subject to the provisions of existing applicable and relevant laws.
- 2.8 "MOA" refers to the "Memorandum of Agreement on the Consolidation Program for Rural Banks among the Proponent Banks" which shall contain the Proponent Banks' agreements as indicated in Section 7(f).
- 2.9 "MOU" refers to the Memorandum of Undertaking in favor of the Agencies duly executed jointly by the Proponent Banks which shall contain the commitments, representations, warranties and other obligations of the proponent Banks as indicated in Section 7(g).
- 2.10 "Program" refers to the Consolidation Program for Rural Banks or CPRB.
- 2.11 "Proponent Banks" refers to the participating rural banks which qualify under the Program pursuant to Section 5.
- 2.12 "RBCAR" means the "Risk Based Capital Adequacy Ratio".
- 2.13 "SEC" refers to the Securities and Exchange Commission which approves the registration of the Surviving Bank as a consolidated or merged bank.
- 2.14 "Surviving Bank" refers to the resulting entity after consolidation or merger of the Proponent Banks.

Section 3.0 Interpretation

The headings in these Guidelines are inserted for convenience of reference only and shall not limit or affect the interpretation of its provisions. References to sections and annexes are to be construed as references to the Sections and Annexes to these Guidelines.

Section 4.0 Program Availability Period

The Program shall be available from **25 August 2015** to **25 August 2017**. To avail of the Program, letters of intent/application duly supported by certification of board and shareholders' approvals of the Proponent Banks and all other required documents enumerated in Section 7 must have been duly submitted to and received by the PDIC **on or before 25 August 2017**.

Section 5.0 Eligibility of Proponent Banks to the Program

Any group of at least five Proponent Banks, the head offices or majority of the branches of which, shall preferably be located in the same region or area, and whose consolidation or merger would result to a Surviving Bank with-

- a. RBCAR of at least 12%; and
- b. A combined unimpaired capital of at least P100Mn.

Rural banks whose head office is located in a nearby region may be included, provided that the Program objectives shall be met.

Section 6.0 Program Support

The Proponent Banks may avail of the following program support:

- 6.1 Funding assistance for:
 - a. Financial advisory services in accordance with Sections 8.6 and 13.2;
 - b. Business process improvement services in accordance with Section 13.3; and
 - c. Capacity building support services in accordance with Section 12.3.
- 6.2 Regulatory Incentives under BSP Circular No. 237, as amended by Circular Nos. 771 dated October 11, 2012 and 494 dated September 20, 2005 and other existing laws and rules subject to the Proponent Banks' compliance of the requirements therein and approval of the concerned agencies.

Section 7.0 Procedures for Application

To avail of the Program's incentives, the Proponent Banks shall submit three (3) sets of the following documents to the PDIC through the Office of the Vice President-Resolution Group:

- a) Letter addressed to the PDIC and the BSP indicating their intention to consolidate or merge under the Program;
- b) Duly accomplished CPRB application form;

- c) Resolution of the Board of Directors of the respective Proponent Banks approving the consolidation or merger with other Proponent Banks under the Program. The resolution shall be certified under oath by the respective corporate secretaries of the Proponent Banks;
- d) Resolution of the stockholders representing at least two-thirds (2/3) of the outstanding capital stock/contribution of each Proponent Bank approving the consolidation or merger with other Proponent Banks under the Program. The resolution shall be certified under oath by the respective corporate secretaries of the Proponent Banks;
- e) Secretary's Certificate of Adoption of Board Resolutions of each of the Proponent Banks containing the following:
 - i. Approval by the Board of the request for availment of funding assistance under Section 6.1;
 - ii. Approval by the Board of the MOA among Proponent Banks containing the terms under Section 7(f), the MOU in favor of the Agencies containing the terms under Section 7(g), Confidentiality Agreement, and other documents as may be required under the Program; and
 - iii. Designation of the Proponent Bank's authorized signatories to execute and deliver the foregoing documents in relation to the Program and attesting to their specimen signatures.
- f. Duly executed joint MOA among Proponent Banks containing, among others, the following:
 - i. The agreement to consolidate or merge under the Program, and to comply with the Program's requirements.
 - ii. The commitment to: (a) allow the duly designated Financial Adviser to conduct due diligence on the Proponent Banks; and (b) voluntarily disclose and allow access to all records, documents and information pertinent to their respective banks' financial condition and other information as may be required by the Financial Adviser.
 - iii. The agreement to accept the results of the Financial Adviser's due diligence review including the consolidation/merger structure.
 - iv. The infusion of additional fresh capital, as may be needed, to bring the resulting RBCAR and combined adjusted capital of the Proponent Banks to the required capital level pursuant to Sections 5 and 9.
 - v. The agreement to adopt the human resource and systems integration plan for the Surviving Bank as proposed by the Financial Adviser.
 - vi. The nomination of directors in the Surviving Bank who possess the qualifications and none of the disqualifications under BSP regulations, who adhere to sound governance principles and who will work to ensure the viability of the Surviving Bank to attain the objectives of the Program.

- vii. The installation in the Surviving Bank of a professional management team that complies with BSP regulations.
 - viii. The institution and adoption of capacity building measures.
 - ix. The submission of valuation and appraisal reports, due diligence findings (including report on the over-all financial condition of the Proponent Banks) of the Financial Adviser and such other information as may be required by PDIC and BSP.
 - x. The submission of the business plan, including strategies, financial projections and proposed organizational structure for the Surviving Bank.
 - xi. The agreement on cost sharing of expenses under the Program including dealing with withdrawal (voluntary or involuntary) by any of the Proponent Banks.
 - xii. The agreement to fully reimburse CFIEP's share in the expenses covering the engagement of a Financial Adviser and/or business process improvement services in case the consolidation or merger of the Proponent Banks does not materialize.
 - xiii. Designation of a duly authorized representative and his alternate for purposes of communication and coordination with the Agencies.
- g. Duly executed joint MOU of the Proponent Banks' commitment to the Agencies to abide by the following:
- i. The terms and conditions of the Program as outlined in the Guidelines, and their obligations under the MOA among the Proponent Banks referred to in Section 7(f).
 - ii. Their warranties and representations to the Agencies.
 - iii. Grant authority to PDIC to request for quotations from the pool of financial advisers accredited under the Program.
 - iv. In case the consolidation or merger of the Proponent Banks does not materialize, fully reimburse CFIEP's share as specified under Sections 13.2 and 13.3 in accordance with their agreement on cost sharing and, to shoulder equally any deficiency in the reimbursement of CFIEP's share, in the event of failure of any of the Proponent Banks to pay its corresponding share.
 - v. Grant authority to BSP to deduct from their respective accounts with BSP, any amount due to the CFIEP, in case they fail to remit their corresponding share to reimburse CFIEP share under Sections 13.2 and 13.3 in accordance with Sections 14.1 and 14.2.
 - vi. Engage a business process consultant for the Surviving Bank in accordance with Section 12.2, with the approval of the Proponent Banks' respective board of directors.
- h. Duly executed Confidentiality Agreement of each of the Proponent Banks; and

- i. Copy of the Proponent Banks' respective latest audited and interim Financial Statements.

PDIC shall only receive complete sets of the foregoing documents from the Proponent Banks. PDIC shall immediately furnish BSP and LBP copies of the complete documents which PDIC received from the Proponent Banks.

Section 8.0 Engagement of the Financial Adviser (FA)

- 8.1 Upon receipt of the complete set of requirements as provided under Section 7, PDIC shall request the top five financial advisers to submit proposals for engagement of their services, based on the Terms of Reference. The quotations shall be addressed directly to the Proponent Banks' duly designated authorized representative, copy furnished PDIC.
- 8.2 Within ten (10) days from receipt of all the quotations from the top five financial advisers, the Proponent Banks shall:
 - a. Collectively decide and select the Financial Adviser with the most reasonable quote and which is most responsive to the Terms of Reference; and
 - b. Notify PDIC of their choice for Financial Adviser.
- 8.3 Within two (2) days from receipt of notice of choice, PDIC shall communicate to CFIEP the Proponent Banks' choice of Financial Adviser.
- 8.4 Within five (5) days from receipt of the choice of the Financial Adviser, CFIEP, through its Technical Committee (TC), shall issue to the Proponent Banks' authorized representative the notice to proceed with the engagement of the Financial Adviser.
- 8.5 Within five (5) days from the receipt of the notice to proceed, the Proponent Banks shall enter into a Contract of Engagement of Financial Advisory Services containing the terms and conditions under the Terms of Reference, copy furnished PDIC.
- 8.6 Within five (5) days from the execution of the Contract of Engagement of Financial Advisory Services, the Proponent Banks' authorized representative shall release to the Financial Adviser the initial payment for its services equivalent to 20% of the Financial Advisers' fee as indicated in the said Contract of Engagement. The balance equivalent to 80% of the Financial Adviser's fee shall be for the account of CFIEP.

The Contract of Engagement of Financial Advisory Services shall become effective upon the Financial Adviser's receipt of the 20% initial payment from the Proponent Banks pursuant to the terms of the Financial Adviser's engagement, and such other terms and conditions as may be agreed between the Proponent Banks and the Financial Adviser.
- 8.7 Upon receipt of the 20% initial payment, the Financial Adviser shall immediately commence and render financial advisory services, including financial, legal and

appraisal services and/or activities, which shall include but not limited to the following:

- a. Engage legal counsel who shall perform a legal audit of pending cases of each of the Proponent Banks, provide legal advisory services and prepare and handle all documentation requirements for consolidation or merger as the case may be, such as the Shareholders' Agreement, Plan of Consolidation or Merger, Articles of Consolidation or Merger, Articles of Incorporation and By-Laws of the Surviving Bank and other documents as may be required by the regulatory agencies.
 - b. Engage appraisers to do a valuation of the real estate and other properties of the Proponent Banks.
 - c. Conduct due diligence on the Proponent Banks.
 - d. Determine the financial condition of the Proponent Bank using standard parameters.
 - e. Prepare valuation study on each Proponent Bank.
 - f. Recommend ownership and capital structure of the Surviving Bank based on the results of the valuation study.
 - g. Assist the Proponent Banks in the preparation of the business plan/strategy, organizational structure and human resource strategy for the Surviving Bank.
 - h. Assist in coordinating with the SEC, the Agencies and the Bureau of Internal Revenue, if necessary.
 - i. Undertake other functions/activities required to complete and implement the transaction contemplated under the Program.
- 8.8 Within fifteen (15) days from the conclusion of their due diligence review, the Financial Adviser shall submit the report containing the result of valuation and the Surviving Bank's ownership structure for approval of the Proponent Banks' respective board of directors and shareholders, copy furnished PDIC and BSP.

Section 9.0 Infusion of Additional Capital

- 9.1 In case the resulting RBCAR and the unimpaired capital of the Surviving Bank based on the Financial Adviser's report are below 12% and P100Mn, respectively, the Proponent Banks shall infuse additional fresh capital to meet the Program's minimum capital requirements in accordance with their commitment under the MOA and MOU.
- 9.2 The Proponent Banks shall cause the infusion of the fresh capital required under the Program through any or a combination of the following: (i) the existing shareholders of the Proponent Banks; and/or (ii) a third party investor.

Section 10.0 Optional Equity Investment Facility from LBP

- 10.1 In the event that the resulting RBCAR of the Surviving Bank falls short of the 12% requirement but is at least 10%, the Surviving Bank may avail of LBP's Equity Investment Facility to bring the RBCAR to 12%.
- 10.2 The Surviving Bank's eligibility under this facility shall be subject to LBP's specific terms and guidelines attached hereto as **Annex "A"** and made an integral part of the Guidelines.

Section 11.0 Approval of the Consolidation or Merger

- 11.1 The Proponent Banks shall secure the approval of their respective board of directors and shareholders on the final plan of consolidation or merger.
- 11.2 Within sixty (60) days from receipt of the Financial Adviser's Final Report, the Proponent Banks shall secure the regulatory consents and/or approval of the PDIC, the BSP and the SEC as provided under existing laws for all banks on consolidations or mergers.
- 11.3 Upon BSP issuance of the Certificate of Authority to operate as the Surviving Bank, the Proponent Banks shall secure from the SEC the Certificate of Registration of the Surviving Bank.

Section 12.0 Integration and Other Activities of the Surviving Bank

- 12.1 Within thirty (30) days from the issuance by the CFIEP TC of the certificate of completion of the Financial Adviser's Final Report, the Proponent Banks, with the assistance of the Financial Adviser, consultant and the Agencies, shall conduct:
 - a. Integration and business process improvement;
 - b. Capacity building activities; and
 - c. Such other activities necessary to ensure the success and viability of the Surviving Bank.
- 12.2 The funding support for the business process improvement services may be availed by the Proponent Banks, subject to the same terms and conditions for the availment of the financial advisory services and the procedure in the engagement of the Financial Adviser as provided in the Guidelines. Provided, however, that the sharing of expenses shall be subject to Section 13.3.

The business process improvement shall include:

 - a. Integration process (data and records integration, consolidation of backroom activities, financial reporting);
 - b. Development and updating of manuals; and
 - c. Guidance on automation/new system requirement as a result of the integration.
- 12.3 The Agencies and CFIEP shall provide capacity building support services such as training on credit evaluation and administration, audit and internal control, personnel management, accounting/record keeping, treasury, information technology, and governance at no cost to the Surviving Bank.

Section 13.0 Program's Funding and Expenses

13.1 CFIEP shall participate in the Program by providing the funding requirements in accordance with these Guidelines.

13.2 The total cost of the financial advisory services inclusive of applicable taxes shall be shared by the CFIEP and the Proponent Banks in accordance with the following proportion:

CFIEP	80%
Proponent Banks	20%

13.3 The total cost for the business process improvement services on the Surviving Bank inclusive of applicable taxes shall be shared by CFIEP and the Proponent Banks (or Surviving Bank) in accordance with the following proportion:

CFIEP	80% on the 1 st year; 50% on the 2 nd year
Proponent Banks/ Surviving Bank	20% on the 1 st year; 50% on the 2 nd year

For this purpose, the 1st year shall commence on the date of issuance by the CFIEP TC of the certificate of completion of the Financial Adviser's Final Report.

13.4 The Agencies shall not be liable for any amount due to the Financial Adviser in excess of CFIEP's share under Sections 13.2 and 13.3. Any additional payment for the financial advisory and business process improvement service providers shall be for the account of the Proponent Banks.

13.5 All other fees and expenses related to the consolidation or merger of the Proponent Banks under the Program shall be shouldered by the Proponent Banks.

13.6 For CFIEP's corresponding share in the fees under Sections 13.2 and 13.3, the same shall be remitted to the Financial Adviser and the business process improvement service providers only after the Proponent Banks shall have fully paid their corresponding share thereto.

Section 14.0 Reimbursement to CFIEP

14.1 The Proponent Banks shall be under obligation to reimburse CFIEP's share under Sections 13.2 and 13.3 in accordance with their agreement on cost sharing within three (3) days from receipt of the demand for reimbursement in case the consolidation or merger does not materialize.

14.2 In case a Proponent Bank refuses or fails to remit any payment due to CFIEP under Section 14.1, the BSP, after due notice from the CFIEP to the Proponent Bank concerned, shall proceed to debit the Proponent Bank's demand deposit therewith, corresponding to the amount due for payment as contained in the CFIEP's demand for reimbursement/payment from the Proponent Bank concerned pursuant to the authority granted to BSP under the MOU executed by the Proponent Banks. The full amount debited shall be credited to the demand deposit account of the CFIEP with the BSP.

- 14.3 Any deficiency due to the failure by any of the Proponent Banks to pay CFIEP in full of its corresponding share shall be divided equally among the remaining Proponent Banks. The payments/collection of such deficiency shall observe the same procedures set forth under the preceding section. The Proponent Banks shall exercise their rights under their agreement if any, or under the law, to exact reimbursement from any non-paying Proponent Bank accordingly.

Section 15.0 Amendments

The Agencies may execute a supplement or amendment hereto for the purpose of adding provisions, changing or modifying provisions of these Guidelines as may be necessary to achieve the Program's objectives.

Section 16.0 Effectivity

These Guidelines shall take effect immediately.

**Guidelines on the LBP Equity Investment Facility
Under the Consolidation Program for Rural Banks (CPRB)**

A. Rationale

Upon consolidation or merger of Proponent Banks, and in case the resulting Risk-Based Capital Adequacy Ratio (RBCAR) and the unimpaired capital of the Surviving Bank based on the Financial Adviser's report are below 12% and P100Million, respectively, the Surviving Bank shall infuse additional fresh capital to meet the Program's capital and RBCAR requirements, through any or a combination of the following: (i) the existing shareholders of the Proponent Bank; and/or (ii) a third party investor.

In the event that upon capital infusion by the existing shareholders or third party investors, the resulting RBCAR of the Surviving Bank is at least 10% but below 12%, the Surviving Bank may avail of LBP's equity investment facility under the Program.

B. Objectives

LBP equity infusion shall be undertaken to meet the following objectives:

1. Increase the RBCAR from at least 10% to 12%;
2. Strengthen the capital base of the Surviving Bank;
3. Help sustain long-term viability of the Rural Banking sector.

C. Equity Investment Facility

1. Eligibility Criteria

- a. Surviving Bank (consolidated or merged bank) under the Program;
- b. No adverse findings on the principal (Directors/Key Officers);
- c. RBCAR of at least 10% but less than 12%;
- d. Minimum capitalization required by the Program;
- e. Adequate Reserves for the four (4) week period preceding the application (based on the submitted interim financial statements); and
- f. Net past due ratio of not more than 15%

2. Maximum amount : Up to 100% of the total capital requirement in bringing the RBCAR from at least 10% to 12%; or up to 30% of the total issued and paid-up capital stock, whichever is lower.

3. Features : a. Maturity of ten (10) years from the date of release, notwithstanding any change in the structure of ownership of the surviving bank;

- b. LBP's entitlement to be represented in the CFI Board;
- c. Preferred shares;
- d. Cumulative dividends;
- e. To be fully redeemed at maturity at par or book value, whichever is higher plus unpaid dividends, *if any*
- f. Non-voting but shall be entitled to vote on corporate acts specified under Section 6 of the Corporation Code
- g. Dividend Rate of 10-year R2 plus 2.5%, or a floor rate of 6.5%, *whichever is higher*, fixed at the time of availment;
- h. Booking of the equity by the CFI shall be recognized under Tier 2 Capital

4. Other Terms and Conditions:

Issuance of the preferred shares under the Program shall require compliance with the following in accordance with BSP Circular No. 781, series of 2013 and other requirements:

- a. It must be issued and paid-in;
- b. It must be subordinated to depositors and general creditors of the Bank;
- c. It is neither secured nor covered by a guarantee of the Issuer or related entity or other arrangement that legally or economically enhances the seniority of the claim vis-à-vis depositors and general creditors of the Bank;
- d. With regard to maturity:
 - 1) It must have a minimum original maturity of at least five (5) years;
 - 2) Its recognition in regulatory capital in the remaining five (5) years before maturity will be amortized on a straight line basis as shown in the table below; and

Remaining Maturity	Discount Factor
5 years and above	0%
4 years to <5 years	20%
3 years to <4 years	40%
2 years to <3 years	60%
1 year to <2 years	80%
<1 year	100%

- 3) There are no step-ups or other incentives to redeem
- e. It may be callable at the initiative of the Issuer only after a minimum of five (5) years:
- 1) To exercise a call option the Bank must receive prior supervisory approval; and
 - 2) The Bank will not do anything which creates an expectation that the call will be exercised; and
 - 3) The Bank will not exercise a call unless:
 - i. The Bank replaces the called instrument with capital of the same or better quality and the replacement of this capital is done at conditions which are sustainable for the income capacity of the Bank; or
 - ii. The Bank demonstrates that its capital position is well above the minimum capital requirements after the call option is exercised.
- f. The investor must have no rights to accelerate the repayment of future scheduled payments (coupon or principal), except in bankruptcy and liquidation;
- g. The instrument cannot have a credit sensitive dividend feature, that is a dividend/coupon that is reset periodically based in whole or in part on the Bank's credit standing;
- h. Neither the Bank nor a related party over which the Bank exercises control or significant influence can have purchased the instrument, nor can the Bank directly or indirectly have funded the purchase of the instrument;
- i. It must be underwritten by a third party not related to the issuer bank nor acting in reciprocity for and in behalf of the issuer bank.
- j. The instrument shall be converted into common equity upon the occurrence of a trigger event subject to the provisions as may be defined by BSP. The trigger event occurs when the Bank is considered non-viable as determined by the BSP. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio, inability of the Bank to continue business (CLOSURE) or any other event as determined by the BSP, whichever comes earlier.

The issuance of any new shares as a result of the trigger event must occur prior to any public sector injection of capital so that the capital provided by the public sector is not diluted.

The requirements on loss absorbency features of Tier 2 capital at point of non-viability as provided in Annex F of BSP Circular No. 781 dated 15 January 2013 shall likewise be observed.

Following the provisions of item 10 of Annex F of BSP Circular 781, the formula for the conversion of the total outstanding notes into common shares when the trigger event shall have occurred and the Issuer is declared by BSP to have reached the point of non-viability, shall be as follows:

$$\text{No. of Common Shares} = \frac{\text{Amount of Investment}}{50\% \times \text{Adjusted Book Value per Share}}$$

where the amount of investment pertains to the preferred shares issued while the **adjusted book value per share** refers to the book value at the time the capital instrument is issued, and determined using the formula:

$$\frac{\text{Total Stockholder's Equity} - \text{Preferred Equity}}{\text{Total Outstanding Shares}}$$

The adjusted book value per share shall be the figure that will be obtained from the Financial Adviser's report or from the latest financial statements using the above formula.

The number of common shares obtained using the above formula shall be the **minimum** number of common shares to be received by LANDBANK.

Other terms/requirement on loss absorbency features include the following:

1. The issuer must make the necessary adjustments to its Articles of Incorporation to accommodate the conversion of the capital instrument into common shares for loss absorbency at the point of non-viability
- k. The write-down will have the following effects:
1. Reduce the claim of the instrument in liquidation;
 2. Reduce the amount re-paid when a call is exercised; and
 3. Partially or fully reduce coupon/dividend payments on the instrument.
- l. The Issuer must submit a written external legal opinion that it has met the requirements on the issuance of the preferred shares, including the subordination and loss absorption features.
- m. It must clearly state on its face that it is not a deposit and is not insured by the Philippine Deposit Insurance Corporation ("PDIC").
- n. The existing LBP equity investments and loans in the participating banks, *if any*, should be recognized by the Surviving Bank;
- o. Issuer must meet all of the following Eligibility Criteria prior to the release of the equity investment proceeds:

Parameters	Benchmark
1. Should be Surviving Bank (merged or consolidated) under the Program	Complied
2. No adverse findings on the principal (Directors/Key Officers)	Complied
3. Risk-Based Capital Adequacy Ratio (RBCAR)	At least 10% but less than 12%

4. Minimum capitalization required by the Program	At least P100 Million unimpaired capital
5. Adequate Reserves for the four (4) week period preceding the application (based on the submitted interim financial statements)	Complied
6. Past Due Ratio (net)	Not more than 15%

- p. The duly approved equity investment proposal can be availed of one (1) year from the date of approval;
- q. In compliance with the BSP Circular No. 826, series of 2014,
- 1) The Issuer shall provide the appropriate Risk Disclosure Statement for the issuance of additional Tier 2 capital instruments. The said disclosure statement shall explain the loss absorbency features of additional Tier 2 capital instruments as well as the resulting processes that will be effected when triggers for loss absorbency are breached;
 - 2) the LBP, through its Investment Banking Group, shall issue certification stating that:
 - i. it has been provided a Risk Disclosure Statement which among others, explains the concept of loss absorbency for additional Tier 2 capital instruments as well as the resulting processes should the triggers are breached;
 - ii. it has read and understood the terms and conditions of the issuance;
 - iii. it is aware of the risks associated with the capital instruments, and
 - iv. said risks include permanent write-down or conversion of the debt instrument into common equity at a specific discount.
5. Documentary Requirements
- a. Pre-processing Requirements
- 1) Written endorsement from LBP Servicing Lending Center (SLC) on CFI application for LBP equity investment
 - 2) Original copy of CFI application letter signed by its duly authorized signatory
 - 3) Original copy of BOD Resolution approving the CFI's authorized representative/signatory to CFI application for LBP equity investment with his/her picture and specimen signatures, and the CFI application for LBP equity investment
 - 4) Copy of the merger or consolidation plan;
 - 5) Certified true copy of Legal Reserves Schedule for 4 weeks immediately preceding the submitted latest quarter-ended FS of the current year
 - 6) Financial Statements (FS) - Balance Sheet & Income Statement
 - a) Certified true copy of audited and BIR-filed FS for the past year/s, *if applicable*, stamped received by BIR
 - b) Certified true copy of latest quarter-ended FS of the current year, stamped received by BSP

c) Certified true copy of Computation of Adjusted Risk-Based Capital Adequacy Ratio (RBCAR) comprising Part I: CAR Report and Part II: Qualifying Capital, stamped received by BSP:

- i. For the past year, *if applicable*; and
- ii. Latest quarter-ended FS of the current year

Note: The required FS cover only the latest audited BIR-filed FS, latest quarter-ended FS of the current year, and RBCAR as of latest quarter-ended FS of the current year

7) Business Plan

8) 5-yr. Financial Projection consisting of the following:

- a) Capital Structure
- b) Balance Sheet
- c) Income Statement
- d) Cash Flow Statement

9) Other documents:

- a) Certified true copy of CFI authority to operate granted by BSP
- b) Certified true copy of existing registration and articles of incorporation and by-laws
- c) List of major stockholders and their stockholdings with their bio-data
- d) List of Directors and key officers with their bio-data
- e) Latest BI/CI results on CFI (not more than 6 months from latest quarter-ended FS)
- f) Copy of latest approved CFP on Rediscounting facility granted to CFI, *if applicable*
- g) Copy of the Financial Adviser's Report

b. Pre-release Requirements

Original copies of the following:

- 1) CFI letter request for the release of proceeds of LBP equity investment
- 2) BOD Resolution designating CFI authorized signatory for the execution of MOA, Escrow Agreement and other pre-release documents with his/her picture and specimen signatures
- 3) Duly signed and notarized MOA on equity investment
- 4) Duly signed and notarized Escrow Agreement
- 5) Duly approved Investment Facilities Proposal (IFP) for LBP equity investment
- 6) ILC/BOD Resolutions approving the LBP equity investment
- 7) Certificate of stock issued in favor of LBP
- 8) Written commitment of CFI to effect the conversion at the point of non-viability

- 9) Waiver of the respective stockholders of their pre-emptive rights on the common shares to be issued to LBP at the point of non-viability".
- 10) SEC-approved amended Articles of Incorporation and by-laws indicating the features of equity investment, and to accommodate the conversion of equity investment to common shares at the point of non-viability in accordance with the Loss Absorption Features under the Terms and Conditions of the Issuance.